

ST. IGNACE AREA SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required and additional information)
JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

September 16, 2008

Board of Education
St. Ignace Area Schools
St. Ignace, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of St. Ignace Area Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of St. Ignace Area Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2008 on our consideration of St. Ignace Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements discussion and analysis and required budgetary comparison information on pages 2-8 and pages 31 and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Ignace Area School's basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377
www.harrisgroupcpa.com

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

During 2007 – 2008 fiscal year, the District continued to present Governmental Accounting Standards Board Statement 34 (GASB 34), Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments. This section of the St. Ignace Area Schools annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008.

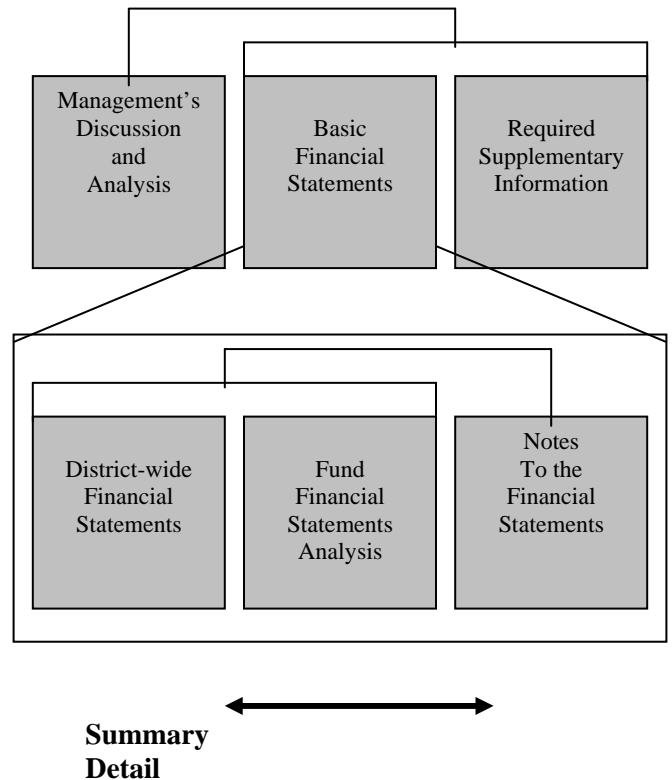
Financial Highlights

- The Districts financial status improved this year. Total net assets increased 16.4% to approximately \$2,170,000 compared to \$1,865,000 last year.
- During the year the District's expenses were \$305,000 less than its \$7.66 million in revenue.
- At the end if the fiscal year, the fund balance in the general Fund was \$716,116 or 11% of the total general fund expenditures.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district.

**Figure A-1
Required Components of
The District's Annual Financial Report**



- The first two statements are district-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
 - Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the district's budget for the years. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the district's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district is the trustee or agent for someone else's resources such as student activities monies
Required Financial Information	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset Liability Information	All assets and liabilities, both financial and capital, and short- term and long- term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year regardless of when cash is received or paid.

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the districts financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school building and other facilities.

The government-wide financial statements of the District are:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds: not the district as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the District-wide Statements and the Fund financial Statements.
- Fiduciary funds – The District is trustee, or fiduciary, for assets that belong to others, such as student activities and scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Assets. The District's combined net assets were higher on June 30, 2008 than they were the year before, increasing more than 16.4% to approximately \$2,170,000. Figure A-3 illustrates the valuation of net assets on June 30, 2008 and 2007.

Figure A-3

Condensed Statement of Net Assets

	2008	2007
Assets		
Current	\$ 4,231,921	\$ 4,136,301
Non-current	7,890,426	8,283,105
Total assets	<u>\$ 12,122,347</u>	<u>\$ 12,419,406</u>
Liabilities		
Current	\$ 2,430,712	\$ 2,629,681
Non-Current	7,521,234	7,924,349
Total liabilities	<u>9,951,946</u>	<u>10,554,030</u>
Net Assets		
Invested in capital assets, net of related debt	1,163,484	773,726
Restricted	869,553	727,496
Unrestricted	<u>137,364</u>	<u>364,154</u>
Total net assets	<u>2,170,401</u>	<u>1,865,376</u>
Total liabilities and net assets	<u>\$ 12,122,347</u>	<u>\$ 12,419,406</u>

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Figure A-4

Results of Operations:

	2008	2007
Revenues:		
Program revenue:		
Charges for services	\$ 204,434	\$ 217,374
Operating grants and contributions	995,492	957,686
General revenue		
Property taxes	2,164,994	2,114,232
Unrestricted state aid	4,098,053	4,285,313
Interest and investment earnings	89,782	81,940
Other general revenues	111,916	51,055
	<hr/>	<hr/>
Total revenues	7,664,671	7,707,600
	<hr/>	<hr/>
Expenditures:		
Instruction	4,273,605	4,388,501
Support Services	2,323,331	2,150,957
Food service	315,995	295,632
Athletics	185,094	179,798
Interest on long-term debt	226,814	234,676
Depreciation (unallocated)	34,807	34,793
	<hr/>	<hr/>
Total expenditures	7,359,646	7,284,357
	<hr/>	<hr/>
CHANGE IN NET ASSETS	\$ 305,025	\$ 423,243
	<hr/>	<hr/>

The District's financial position is the product of many factors:

- Per pupil funding increased by \$119
- Taxable values increased 8.1% increase property taxes approximately \$50,000.
- State Aid is lower than the prior year due to a reduction of 27.85 students in the blended student count.
- Because of cash flow issues, borrowing decreased from \$1,200,000 to \$925,000.

Financial Analysis of the District's Funds

As the District completed the year its governmental funds reported combined fund balances of \$2,237,625 compared to \$1,988,868 in the prior year.

The 2007 – 2008 general fund budget reflected teaching staff reduction, which included one new hire and contracting of speech services. The Athletic fund balance increased slightly, even though the sports season changed with all basketball going to winter and volleyball going to the fall. The district hosted several playoff games that helped offset the potential lost revenue. Lunch fund balance decreased mainly due to higher food costs. The student enrollment decrease also results in less meals being served.

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. The budget amendments were for changes made at the end of the second quarter to account for final enrollment counts and changes made in assumptions since the original budget was adopted. Significant items causing budget adjustments are:

- Additional impact aid
- Increased foundation allowance
- Staff off on leave and replaced by substitute for most of the year
- Termination pay
- Reclassification of expenses due to grants

At the end of the year, actual expenditures were \$6,269,646 compared to \$6,320,800 budgeted, which represents a favorable budget variance of \$51,154.

Actual revenues were \$6,505,884 compared to \$6,475,917 budgeted, which represents an favorable budget variance of \$29,967.

Capital Asset and Debt Administration

Capital Assets:

By the end of 2007, the District had invested \$7,802,000 in a broad range of capital assets, including school buildings, athletic facility improvements, software, busses, technology and electronic surveillance equipment.

	Beginning of year	Additions	Disposals	End of year
Land	\$ 505,049	\$	\$	\$ 505,049
Buildings and improvements	10,815,017	22,229		10,837,246
Site improvements	264,498			264,498
Vehicles	442,702			442,702
Furniture and Equipment	798,374	8,087		806,461
Total capital assets	12,825,640	30,316		12,855,956
Less accumulated depreciation:	4,640,378	413,233		5,053,611
Net capital assets	<u>\$ 8,185,262</u>	<u>\$ (382,917)</u>	<u>\$</u>	<u>\$ 7,802,345</u>

Current additions include risers, repairs to the middle school roof, and carpet at the middle school and high school.

**ST. IGNACE AREA SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Long Term Debt:

Total long-term debt at June 30, 2008 was \$8,161,549. Below in the debt activity for the year:

	Beginning of year	Additions	Decreases	End of year
Bonds and installment agreements	\$ 7,411,536	\$	\$ 449,828	\$ 6,961,708
Other liabilities				
Compensated absences	1,221,090		21,249	1,199,841
Total long-term liabilities	<u>\$ 8,632,626</u>	<u>\$</u>	<u>\$ 471,077</u>	<u>\$ 8,161,549</u>

Factors Bearing on the District's Future

The following factors have been considered in preparing the budget for the 2008/2009 school year:

- With the current economic condition in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2008 -2009 year
- Cash flow borrowing will continue in the upcoming year
- Negotiations for teaching staff
- The district continues declining enrollment
- Rising health insurance costs

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact St. Ignace Area Schools Business Office, W429 Portage Street, St. Ignace, MI 49781.

**ST. IGNACE AREA SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS

Current Assets:	
Cash	\$ 2,191,919
Investments	1,127,059
Other Receivables	11,784
Due from other governmental units	873,041
Inventory	1,368
Prepaid items	26,750
	<hr/>
Total current assets	4,231,921
	<hr/>
Noncurrent assets:	
Deferred charges	88,081
Capital assets	12,855,956
Less: accumulated depreciation	(5,053,611)
	<hr/>
Total noncurrent assets	7,890,426
	<hr/>
	<u><u>\$ 12,122,347</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 108,449
Accrued expenses	314,882
Salaries payable	481,969
Due to other governmental units	192,840
Deferred revenue	2,023
Note payable	925,000
Current portion of long term debt	405,549
	<hr/>
Total current liabilities	2,430,712
	<hr/>
Noncurrent liabilities:	
Noncurrent portion of long-term debt and liabilities	7,521,234
	<hr/>
Total liabilities	9,951,946
	<hr/>
Net Assets:	
Invested in capital assets, net of related debt	1,163,484
Unrestricted	1,006,917
	<hr/>
Total Net Assets	2,170,401
	<hr/>
	<u><u>\$ 12,122,347</u></u>

See notes to financial statements.

**ST. IGNACE AREA SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		Net (expenses) And changes in Net assets
		Charges for Services	Operating Grants and Contributions	
			Capital Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 4,273,605	\$	\$ 628,658	\$ (3,644,947)
Supporting services	2,323,331	32,668	201,897	(2,088,766)
Food Service	315,995	104,629	164,937	(46,429)
Athletics	185,094	67,137		(117,957)
Interest/fees on long term debt	226,814			(226,814)
Depreciation (unallocated)	34,807			(34,807)
Total governmental activities	<u>\$ 7,359,646</u>	<u>\$ 204,434</u>	<u>\$ 995,492</u>	<u>(6,159,720)</u>
General revenues:				
Property taxes, levied for general purposes				1,406,206
Property taxes, levies for debt services				621,311
Property taxes, levies for capital expenditures				137,477
Unrestricted state aid				4,098,053
Interest and investment earnings				89,782
Other				111,916
Total General revenues				<u>6,464,745</u>
CHANGES IN NET ASSETS				305,025
Net assets – beginning of year				<u>1,951,480</u>
Prior period adjustment (See Note 11)				<u>(86,104)</u>
Net assets – end of year				<u>\$ 2,170,401</u>

See notes to financial statements.

**ST. IGNACE AREA SCHOOLS
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	Building and Site	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 982,373	\$ 513,215	\$ 696,331	\$ 2,191,919
Investments	792,858		334,201	1,127,059
Receivables:				
Accounts			2,784	2,784
Interest	9,000			9,000
Due from other funds				
Due from other governmental units	873,041			873,041
Inventory			1,368	1,368
Prepaid expenses	25,750		1,000	26,750
	<u>\$ 2,683,022</u>	<u>\$ 513,215</u>	<u>\$ 1,035,684</u>	<u>\$ 4,231,921</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Note payable	\$ 925,000	\$	\$	\$ 925,000
Accounts payable	107,633		816	108,449
Accrued expenses	273,417		10,598	284,015
Due to other governmental units	192,840			192,840
Salaries payable	467,716		14,253	481,969
Deferred revenue	300		1,723	2,023
Total liabilities	<u>1,966,906</u>		<u>27,390</u>	<u>1,994,296</u>
Fund balances:				
Reserved for:				
Inventory			1,368	1,368
Debt retirement			493,632	493,632
Capital Projects			375,921	375,921
Unreserved:				
Undesignated	716,116	513,215	137,373	1,366,704
Total fund balances	<u>716,116</u>	<u>513,215</u>	<u>1,008,294</u>	<u>2,237,625</u>
	<u>\$ 2,683,022</u>	<u>\$ 513,215</u>	<u>\$ 1,035,684</u>	<u>\$ 4,231,921</u>

See notes to financial statements.

ST. IGNACE AREA SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$ 2,237,625
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

	The cost of capital assets is	12,855,956	
	Accumulated depreciation is	<u>(5,053,611)</u>	7,802,345

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

	Bonds Payable	6,961,708	
	Bond discount and issuance cost	(234,766)	
	Deferred charge on refunding	(88,081)	
	Accrued interest payable	30,867	
	Compensated absences (vacations)	<u>1,199,841</u>	<u>(7,869,569)</u>

Total net assets - governmental activities	\$ <u>2,170,401</u>
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See notes to financial statements.

ST. IGNACE AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General	Building and Site	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property taxes	\$ 1,406,206	\$	\$ 758,788	\$ 2,164,994
Other local sources	186,476	12,373	193,534	392,383
State sources	4,178,704		29,155	4,207,859
Federal sources	620,755		164,937	785,692
Non-educational sources	22,110			22,110
Other sources	91,633			91,633
Total revenues	6,505,884	12,373	1,146,414	7,664,671
EXPENDITURES:				
Instruction:				
Basic instruction	3,180,604			3,180,604
Added needs	741,205			741,205
Compensatory education	34,006			34,006
Total Instruction	3,955,815			3,955,815
Support Services:				
Pupil services	213,369			213,369
Instructional staff	202,674			202,674
General Administration	211,186			211,186
School Administration	426,431			426,431
Business	157,209			157,209
Operations and Maintenance	742,755			742,755
Transportation	358,970			358,970
Other	1,237		9,500	10,737
Transfers to other districts				
Food service			315,995	315,995
Athletic activities			176,023	176,023
Debt principal payments			449,828	449,828
Debt interest and other charges			194,922	194,922
Total support services	2,313,831		1,146,268	3,460,099
Total expenditures	6,269,646		1,146,268	7,415,914
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	236,238	12,373	146	248,757
OTHER FINANCING SOURCES (USES):				
Operating transfers in	5,780		186,862	192,642
Operating transfers out	(148,401)		(44,241)	(192,642)
Total other financing sources (uses)	(142,621)		142,621	
NET CHANGES IN FUND BALANCES	93,617	12,373	142,767	248,757
FUND BALANCE - beginning of year	622,499	500,842	865,527	1,988,868
FUND BALANCE - End of year	\$ 716,116	\$ 513,215	\$ 1,008,294	\$ 2,237,625
See notes to financial statements.				

**ST. IGNACE AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Total net change in fund balances - governmental funds	\$ 248,757
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which depreciation exceeds capital outlays in the period.	(382,917)
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Interest on long-term debt in the statement of activities differs from the amount recorded in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

1,553

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The amounts included in the statement of activities are:

Compensated absences (vacations)	21,249
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Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

Repayment of principle	449,828
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The issuance of long-term debt provides current financial resources to governmental funds, But does not have any effect on the net assets. Also, governmental funds report the effect of Issuance costs, discounts and similar items when debt is first issued, whereas these amounts Are deferred and amortized in the statement of activities. The adjustment to the statement Of activities is as follows:

Amortization of bond issue cost and discount	(23,082)
Deferred charge on refunding	(10,363)

Change in net assets of governmental activities.	\$ 305,025
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See notes to financial statements.

**ST. IGNACE AREA SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	<u>\$ 167,448</u>	<u>\$ 155,109</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	<u>\$ 167,448</u>	<u>\$ 155,109</u>

See notes to financial statements.

ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of St. Ignace Area Schools (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the general purpose financial statements of St. Ignace Area Schools contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the District nor is the District a component unit of another entity.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the school district. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

The district reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The *building and site fund* accounts for capital project activities within the district.

Additionally, the district reports the following fund types:

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the District and are recognized as revenue at that time. State and federal revenues are recognized as follows:

State Foundation Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008 the foundation allowance was based on the pupil membership counts taken in February and September 2007.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units. The local revenue is recognized as outlined in Note 1 C-3– Accounting for Property Taxes.

Categorical

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity

1. Cash and investments

The District reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the district intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund (non-homestead)	18.000
Debt service funds (homestead & non-homestead)	4.410
Sinking fund	.9747

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, Liabilities and Equity (continued)

4. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized and are not included as a reservation of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital Assets

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the district as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the district is depreciated using the straight line method over the following estimated useful lives:

Building and site improvements	20 – 50 yrs
Furniture, equipment and vehicles	5-15 yrs

6. Compensated Absences

Accumulated vacation and sick pay amounts which are expected to be liquidated with expendable available resources (generally sixty days) are recorded in the general fund while the remainder of the liability is recorded in the government-wide financial statements.

7. Unemployment Insurance

The District reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the District. Billings are received for amounts paid by the State through June 30 are accrued.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

9. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

10. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The District maintains a formalized encumbrance accounting system.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balance – budget and actual – GAAP basis – general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the District by each of the District's funds.

Deposits

At year-end, the carrying amount of the District's deposits were \$2,113,507 and the bank balance was \$2,190,716 of which \$101,258 was covered by federal depository insurance and \$2,089,458 was uninsured and uncollateralized.

Interest Rate Risk – The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The district has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The district places no limit on the amount the district may invest in any one issuer.

A reconciliation of cash as shown on the combined balance sheet follows:

Carrying amount of deposits	\$ 2,113,507
Certificated of Deposits	<u>1,372,919</u>
Total	<u><u>\$ 3,486,426</u></u>
Cash and cash equivalents:	
Governmental activities	\$ 2,191,919
Investments	1,127,059
Fiduciary funds	<u>167,448</u>
Total	<u><u>\$ 3,486,426</u></u>

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – RECEIVABLES

Receivables at June 30, 2008 consist of the following:

Governmental units	\$ 873,041
Other	<u>2,784</u>
	<u><u>\$ 875,825</u></u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

NOTE 4 – NOTE PAYABLE

At June 30, 2008 the District has outstanding a \$925,000 revenue note (state aid note) dated August 20, 2007. The note, which has an interest rate of 3.68%, matures August 20, 2008. The note is secured by the full faith and credit of the District, the investment contract, as well as pledged state aid. The short term note is used to facilitate cash flow needs.

The following is a summary of the changes in short-term liabilities for the year ended June 30, 2008:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Note payable	<u>\$ 1,200,000</u>	<u>\$ 925,000</u>	<u>\$ 1,200,000</u>	<u>\$ 925,000</u>

ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT

At June 30, 2008, general obligation debts and other long-term obligations currently outstanding are as follows:

2005 Bus Qualified Zone Academy Bonds due in an annual installment of \$171,000 on April 1, 2011; non- interest bearing.	\$ 171,000
2005 Building and Site Qualified Zone Academy Bonds due in an annual installment of \$1,204,845 on April 1, 2020; non-interest bearing.	1,204,845
2004 Serial Refunding Bonds due in annual installments of \$255,000 to \$315,000 through May 1, 2015; interest at 2.0% to 3.4%.	1,970,000
2003 Serial Refunding Bonds due in annual installments of \$85,000 to \$345,000 through May 1, 2021; interest at 2.0% to 4.6%.	3,075,000
2001 Energy Conservation Improvement Bonds due in annual installments of \$125,000 to \$200,000 beginning August 15, 2012 through 2014; non-interest Bearing.	500,000
Limited obligation Durant bonds payable in annual installments of \$7,001 to \$21,002 through May 2013, interest at 4.76%	<u>40,863</u>
Total bonded debt	6,961,708
Termination benefits	<u>1,199,841</u>
	<u><u>\$ 8,169,541</u></u>

ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT (concluded)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2008 including interest of \$1,348,024 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 405,549	\$ 186,661	\$ 592,210
2010	420,813	175,972	596,785
2011	602,089	164,330	766,419
2012	456,729	154,130	610,859
2013	581,683	135,776	717,459
2014-2018	2,295,000	439,765	2,734,765
2019-2021	2,199,845	91,390	2,291,235
	6,961,708	1,348,024	8,309,732
Termination benefits	1,199,841		1,199,841
	<u>\$ 8,161,549</u>	<u>\$ 1,348,024</u>	<u>\$ 9,509,573</u>

At June 30, 2008, net assets of \$451,308 are available in the debt service funds to service the general obligation debt.

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 7,315,845	\$	\$ 395,000	\$ 6,920,845	\$ 400,000
Limited obligation bonds	40,863			40,863	5,549
Bond Premium	5,332		681	4,651	
Bond Discount	(17,697)	1,282		(16,415)	
Refunding deferral	(246,084)	23,082		(223,002)	
Installment agreement	54,828		54,828		
Total bonds payable	7,153,087	24,364	450,509	6,726,942	405,549
Other liabilities:					
Termination benefits	1,221,090		21,249	1,199,841	
Total long-term liabilities	<u>\$ 8,374,177</u>	<u>\$ 24,364</u>	<u>\$ 471,758</u>	<u>\$ 7,926,783</u>	<u>\$ 405,549</u>

ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2008 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and improvements	\$ 505,049	\$	\$	\$ 505,049
Capital assets, being depreciated				
Buildings and improvements	\$ 10,815,017	\$ 22,229	\$	\$ 10,837,246
Site improvements	264,498			264,498
Vehicles	442,702			442,702
Furniture and Equipment	798,374	8,087		806,461
Total historical cost	<u>\$ 12,320,591</u>	<u>\$ 30,316</u>	<u>\$</u>	<u>\$ 12,350,907</u>
Less accumulated depreciation:				
Buildings and improvements	\$ 3,797,439	\$ 292,877	\$	\$ 4,090,316
Site improvements	101,064	7,170		108,234
Vehicles	237,320	33,248		270,568
Furniture and equipment	504,555	79,938		584,493
Total accumulated depreciation	<u>\$ 4,640,378</u>	<u>\$ 413,233</u>	<u>\$</u>	<u>\$ 5,053,611</u>
Net capital assets being depreciated	<u>\$ 7,680,204</u>			<u>\$ 7,297,296</u>
Governmental activities capital assets, net	<u>\$ 8,185,253</u>			<u>\$ 7,802,345</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 369,355
Athletics	9,071
Unallocated	<u>34,807</u>
Total depreciation expense	<u>\$ 413,233</u>

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2008 were as follows:

Fund Transferred Out	Fund Transferred In	Amount
General fund	Food Service fund	\$ 1,870
General fund	Athletics	125,000
General fund	QZAB Bus	3,255
General fund	QZAB Debt service	18,276
QZAB Debt service	General fund	5,780
Sinking fund	QZAB Debt service	38,461
		<u>\$ 192,642</u>

Transfers to other funds facilities additional funding for certain funds that expend more funds than receive.

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN - continued

Basic plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 16.72%. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were \$568,566, \$607,437 and \$581,294 respectively, equal to the required contribution for each year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered Public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 11 - PRIOR PERIOD ADJUSTMENT

During the year it was determined that the liability for termination benefits was incorrectly calculated in the prior period. At June 30, 2006 the liability for early retirement incentive was \$1,221,090. The effect of the correction is an increase in the liability by \$86,104.

**ST. IGNACE AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NONMAJOR GOVERNMENTAL FUNDS

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes.

Food Service fund – This fund accounts for the Districts school lunch program.

Athletic Activities fund – This fund accounts for the Athletic activities of the District.

Debt service funds account for the receipt of tax revenues to repay the principle and interest of outstanding debt issues.

Capital project funds are used to purchase equipment and other long-term fixed assets within the district.

REQUIRED SUPPLEMENTARY INFORMATION

ST. IGNACE AREA SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget- Favorable (unfavorable)
	Original	Final	Actual	
Local sources	\$ 1,585,705	\$ 1,597,705	\$ 1,592,682	\$ (5,023)
State sources	4,037,115	4,154,726	4,178,704	23,978
Federal sources	513,700	613,102	620,755	7,653
Non-educational sources	18,900	18,900	22,110	3,210
Other sources	95,000	91,484	91,633	149
Total revenues	6,250,420	6,475,917	6,505,884	29,967
EXPENDITURES:				
Instruction:				
Basic instruction	3,346,057	3,179,891	3,180,604	(713)
Added needs	574,702	744,942	741,205	3,737
Compensatory education	54,662	34,075	34,006	69
Total Instruction	3,975,421	3,958,908	3,955,815	3,093
Support Services:				
Pupil services	258,152	215,875	213,369	2,506
Instructional staff	186,866	208,550	202,674	5,876
General Administration	216,863	214,163	211,186	2,977
School Administration	395,912	437,344	426,431	10,913
Business	170,187	161,639	157,209	4,430
Operations and Maintenance	709,075	759,900	742,755	17,145
Transportation	356,750	364,221	358,970	5,251
Other		200	1,237	(1,037)
Transfers to other districts				
Total support services	2,293,805	2,361,892	2,313,831	48,061
Total expenditures	6,269,226	6,320,800	6,269,646	51,154
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,806)	155,117	236,238	81,121
OTHER FINANCING SOURCES (USES):				
Operating transfers in		5,780	5,780	
Operating transfers out	(145,146)	(148,446)	(148,401)	45
NET CHANGES IN FUND BALANCES	\$ (163,952)	\$ 12,451	93,617	\$ 81,166
FUND BALANCES:				
Beginning of year			622,499	
End of year			\$ 716,116	

ST. IGNACE AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETARY COMPARISON SCHEDULES

St. Ignace Area Schools is not legally required to present budgetary information for capital project funds. Accordingly, the budgetary comparison schedules for the Building and site fund is not required.

ADDITIONAL INFORMATION

**ST. IGNACE AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	Special Revenue Funds			Debt Service Funds					
	Food Service	Athletic Activities	Total	2003 Refunding	2004 Refunding	QZAB	Durant	Bus	Total
ASSETS									
Cash	\$ 67,207	\$ 93,772	\$ 160,979	\$ 57,172	\$ 70,820	\$ 245,861	\$	\$ 32,254	\$ 406,107
Investments								87,525	87,525
Accounts receivable	2,784		2,784						
Inventory	1,368		1,368						
Prepaid Expense	1,000		1,000						
	<u>\$ 72,359</u>	<u>\$ 93,772</u>	<u>\$ 166,131</u>	<u>\$ 57,172</u>	<u>\$ 70,820</u>	<u>\$ 245,861</u>	<u>\$</u>	<u>\$ 119,779</u>	<u>\$ 493,632</u>
Liabilities:									
Accounts payable	\$ 816	\$	\$ 816	\$	\$	\$	\$	\$	\$
Accrued expenses	10,598		10,598						
Salaries payable	14,253		14,253						
Deferred revenue	1,723		1,723						
Total liabilities	<u>27,390</u>		<u>27,390</u>						
Fund balances:									
Reserved	1,368		1,368	57,172	70,820	245,861		119,779	493,632
Undesignated	43,601	93,772	137,373						
Total fund balances	<u>44,969</u>	<u>93,772</u>	<u>138,741</u>	<u>57,172</u>	<u>70,820</u>	<u>245,861</u>		<u>119,779</u>	<u>493,632</u>
Total liabilities and fund balance	<u>\$ 72,359</u>	<u>\$ 93,772</u>	<u>\$ 166,131</u>	<u>\$ 57,172</u>	<u>\$ 70,820</u>	<u>\$ 245,861</u>	<u>\$</u>	<u>\$ 119,779</u>	<u>\$ 493,632</u>

**ST. IGNACE AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	Capital Projects Funds		Total Nonmajor Governmental Funds
	Sinking	QZAB	Total Capital Projects
ASSETS			
Cash and cash equivalents	\$ 129,245	\$	\$ 129,245
Investments	246,676		246,676
Receivables:			
Accounts			2,784
Inventory			1,368
Prepaid expenses			1,000
	<u>\$ 375,921</u>	<u>\$</u>	<u>\$ 375,921</u>
			<u>\$ 1,035,684</u>
 Liabilities:			
Accounts payable	\$	\$	\$ 816
Accrued expenses			10,598
Salaries payable			14,253
Deferred revenue			1,723
			<u>27,390</u>
 Fund balances:			
Reserved	375,921		375,921
Undesignated			137,373
	<u>375,921</u>		<u>1,008,294</u>
	<u>\$ 375,921</u>	<u>\$</u>	<u>\$ 1,035,684</u>

ST. IGNACE AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			Debt Service Funds					
	Food Service	Athletic Activities	Total	2003 Refunding	2004 Refunding	QZAB	Durant	Bus	Total Debt Service
REVENUES:									
Local sources:									
Property taxes	\$	\$	\$	\$ 225,345	\$ 366,382	\$	\$	\$ 29,584	\$ 621,311
Lunch and milk sales	104,629		104,629						
Admission and other		67,137	67,137						
Interest				2,312	3,513	6,623		2,358	14,806
State sources	29,155		29,155						
Federal sources	145,788		145,788						
USDA donated commodities	19,149		19,149						
Total revenues	298,721	67,137	365,858	227,657	369,895	6,623		31,942	636,117
EXPENDITURES:									
Food service	315,995		315,995						
Athletic activities		176,023	176,023						
Capital outlay									
Debt service:									
Principle				95,000	300,000	54,828			449,828
Interest and other				129,930	64,992				194,922
Total expenditures	315,995	176,023	492,018	224,930	364,992	54,828			644,750
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(17,274)	(108,886)	(126,160)	2,727	4,903	(48,205)		31,942	(8,633)
OTHER FINANCING SOURCES (USES):									
Operating transfers in	1,870	125,000	126,870			56,737			56,737
Operating transfers out						(5,780)			(5,780)
Total other financing sources (uses)	1,870	125,000	126,870			50,957			50,957
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(15,404)	16,114	710	2,727	4,903	2,752		31,942	42,324
FUND BALANCES, beginning of year	60,373	77,658	138,031	54,445	65,917	243,109		87,837	451,308
FUND BALANCES, end of year	\$ 44,969	\$ 93,772	\$ 138,741	\$ 57,172	\$ 70,820	\$ 245,861	\$	\$ 119,779	\$ 493,632

ST. IGNACE AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Capital Projects Funds			Nonmajor
	Sinking	QZAB	Total Capital Projects	Governmental Funds
REVENUES:				
Local sources:				
Property taxes	\$ 137,477	\$	\$ 137,477	\$ 758,788
Lunch and milk sales				104,629
Admission and other				67,137
Interest	6,932	30	6,962	21,768
State sources				29,155
Federal sources				145,788
USDA donated commodities				19,149
Total revenues	144,409	30	144,439	1,146,414
EXPENDITURES:				
Food service				315,995
Athletic activities				176,023
Capital outlay		9,500	9,500	9,500
Debt service:				
Principle				449,828
Interest and other				194,922
Total expenditures		9,500	9,500	1,146,268
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	144,409	(9,470)	134,939	146
OTHER FINANCING SOURCES (USES):				
Operating transfers in		3,255	3,255	186,862
Operating transfers out	(38,461)		(38,461)	(44,241)
Total other financing sources (uses)	(38,461)	3,255	(35,206)	142,621
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	105,948	(6,215)	99,733	142,767
FUND BALANCES, beginning of year	269,973	6,215	276,188	865,527
FUND BALANCES, end of year	\$ 375,921	\$	\$ 375,921	\$ 1,008,294

**ST. IGNACE AREA SCHOOLS
TRUST & AGENCY
STATEMENT OF CHANGES IN ASSETS & LIABILITIES
YEAR ENDED JUNE 30, 2008**

	Balances, beginning of year	Receipts	Disbursements	Balances, End of year
ASSETS				
Cash and equivalents	<u>\$ 155,109</u>	<u>\$ 212,061</u>	<u>\$ 199,722</u>	<u>\$ 167,448</u>
LIABILITIES				
Due to organizations and class funds	<u>\$ 155,109</u>	<u>\$ 212,061</u>	<u>\$ 199,722</u>	<u>\$ 167,448</u>

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – 2005 QZAB Bus Bonds
JUNE 30, 2008

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30: 2011	0%	\$ 171,000	\$	\$ 171,000
		<u>\$ 171,000</u>	<u>\$</u>	<u>\$ 171,000</u>

Final payment due on April 1, 2011

Original issue – April 1, 2005 \$171,000

Purpose

- The acquisition of three school busses

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
– 2005 QZAB School Building and Site Bonds
JUNE 30, 2008

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30: 2020	0%	\$ 1,204,845	\$	\$ 1,204,845
		<u>\$ 1,204,845</u>	<u>\$</u>	<u>\$ 1,204,845</u>

Final payment due on April 1, 2020

Original issue – April 1, 2005 \$1,204,845

Purpose

- High school renovations

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – 2004 Refunding Bonds
JUNE 30, 2008

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:				
2009	2.50%	\$ 315,000	\$ 58,001	\$ 373,001
2010	2.50%	305,000	50,126	355,126
2011	3.00%	290,000	42,501	332,501
2012	3.00%	280,000	33,801	313,801
2013	3.13%	265,000	25,401	290,401
2014	3.25%	260,000	17,120	277,120
2015	3.40%	255,000	8,670	263,670
		<u>\$ 1,970,000</u>	<u>\$ 235,620</u>	<u>\$ 2,205,620</u>

Principal payments due on first day of May

Interest payments due on the first day of May and November

Original issue – March 30, 2004 \$3,075,000

Purpose

- To refund all or a portion of the outstanding 1994 Refunding Bonds.

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – 2003 Refunding Bonds
JUNE 30, 2008

	Interest rate	Principal amount	Interest amount	Total
Year ending June 30:				
2009	3.00%	\$ 85,000	\$ 127,207	\$ 212,207
2010	3.40%	110,000	124,657	234,657
2011	3.60%	135,000	120,917	255,917
2012	3.75%	160,000	116,057	276,057
2013	3.85%	185,000	110,057	295,057
2014	4.00%	205,000	102,935	307,935
2015	4.00%	230,000	94,735	324,735
2016	4.10%	325,000	85,535	410,535
2017	4.20%	325,000	72,210	397,210
2018	4.30%	320,000	58,560	378,560
2019	4.40%	320,000	44,800	364,800
2020	4.50%	330,000	30,720	360,720
2021	4.60%	345,000	15,870	360,870
		<u>\$ 3,075,000</u>	<u>\$ 1,104,260</u>	<u>\$ 4,179,260</u>

Principal payments due on first day of May

Interest payments due on the first day of May and November

Original issue – September 16, 2003 \$3,480,000

Purpose

- To refund all or a portion of the outstanding 1995 School Building and Site Bonds

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
- 2001 Energy Conservation Improvement Bonds
JUNE 30, 2008

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:				
2013	0%	\$ 125,000	\$	\$ 125,000
2014	0%	200,000		200,000
2015	0%	<u>175,000</u>		<u>175,000</u>
		<u>\$ 500,000</u>	<u>\$</u>	<u>\$ 500,000</u>

Principal payments due on fifteenth day of August

Original issue – August 15, 2001 \$500,000

Purpose

- The acquisition and construction of energy conservation improvements.

ST. IGNACE AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS – DURANT DEBT
JUNE 30, 2008

	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:				
2009	4.76%	\$ 5,549	\$ 1,453	\$ 7,002
2010	4.76%	5,813	1,189	7,002
2011	4.76%	6,089	912	7,001
2012	4.76%	16,729	4,272	21,001
2013	4.76%	<u>6,683</u>	<u>318</u>	<u>7,001</u>
		<u>\$ 40,863</u>	<u>\$ 8,144</u>	<u>\$ 49,007</u>

Principal payments due on fifteenth day of May

Interest payments due on the fifteenth day of May

Original issue – November 24, 1998 \$99,700

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

ST. IGNACE AREA SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

September 16, 2008

To the Board of Education
St. Ignace Area Schools
St. Ignace, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Ignace Area Schools as of and for the year ended June 30, 2008, which collectively comprise the St. Ignace Area School's basic financial statements and have issued our report thereon dated September 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Ignace Area Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of St. Ignace Area Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of St. Ignace Area Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects St. Ignace Area Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of St. Ignace Area Schools' financial statements that is more than inconsequential will not be prevented or detected by St. Ignace Area Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements of the financial statements will not be prevented or detected by St. Ignace Area Schools' internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Ignace Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of St. Ignace Area Schools in a separate letter dated September 16, 2008.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

September 16, 2008

To the Board of Education
St. Ignace Area Schools
St. Ignace, Michigan

Compliance

We have audited the compliance of St. Ignace Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. St. Ignace Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of St. Ignace Area Schools' management. Our responsibility is to express an opinion on St. Ignace Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about St. Ignace Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Ignace Area Schools' compliance with those requirements.

In our opinion, St. Ignace Area Schools complied, in all material respects, with the requirements referred to above that are applicable each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of St. Ignace Area Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered St. Ignace Area Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Ignace Area Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Ignace Area Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the St. Ignace Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

ST. IGNACE AREA SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/07	Adjust- ments	Current Year Receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/08
<u>U.S. Department of Agriculture</u>									
Passed through Michigan Department of Education:									
Child Nutrition Cluster:									
National School Lunch Program – Section 4	10.555	71950	\$ 20,476	\$ 18,095	\$	\$	\$ 2,381	\$ 2,381	\$
National School Lunch Program – Section 4		71960	11,877				11,877	11,877	
National School Lunch Program – Section 11		81950	101,989	84,883			17,106	17,106	
National School Lunch Program – Section 11		81960	84,962				84,962	84,962	
			219,304	102,978			116,326	116,326	
National School Lunch Program – Breakfast	10.553	71,970	29,624	25,952			3,672	3,672	
National School Lunch Program – Breakfast		81,970	25,790				25,790	25,790	
			55,414	25,952			29,462	29,462	
Total Child Nutrition Cluster			274,718	128,930			145,788	145,788	
Food Distribution:									
Entitlement commodities	10.550		17,478				17,478	17,478	
Bonus commodities			1,671				1,671	1,671	
			19,149				19,149	19,149	
Total Passed through Michigan Department of Education			293,867	128,930			164,937	164,937	
Passed through Department of Natural Resources									
School and Roads Grant	10.665		48,356				48,356	48,356	
Total Department of Agriculture			342,223	128,930			213,293	213,293	
<u>Department of Education</u>									
Direct programs:									
Impact Aid	84.041	32-MI-2005-1204	20,849				20,849	20,849	
		32-MI-2007-1204	11,399				11,399	11,399	
		32-MI-2008-1204	169,033				169,033	169,033	
			201,281				201,281	201,281	

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/07	Adjust- ments	Current Year Receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/08
Indian Education	84.060	B060A050161 S060A070161	119,850 112,964	119,850	29,850		29,850 103,913	112,964	9,051
			232,814	119,850	29,850		133,763	112,964	9,051
Total Direct			434,095	119,850	29,850		335,044	314,245	9,051
Passed through Michigan Department of Education:									
ECIA Title I	84.010	0715300607 0815300708	91,695 106,006	91,695	2,495		2,495 92,862	106,006	13,144
			197,701	91,695	2,495		95,357	106,006	13,144
Title I D	84.013	0817000708	28,197				28,197	28,197	
Service Provider Review	84.027	0804400708	4,000				1,423	1,423	
ECIA Title V	84.298	0802500708	1,562				1,562	1,562	
Technology literature	84.318	0842900708	873				873	873	
Improving Teacher Quality	84.367	0705200607 0805200708	40,710 47,789	33,766	8,232		8,232 42,551	43,161	610
			88,499	33,766	8,232		50,783	43,161	610
Total passed through Michigan Department of Education			320,832	125,461	10,727		178,195	181,222	13,754
Passed through Eastern Upper Peninsula Intermediate School District									
Handicapped persons	84.027	0704500607 0804500708	72,960 76,932	72,960	42,362		42,362 10,542	76,932	66,390
			149,892	72,960	42,362		52,904	76,932	66,390
Total passed through Eastern Upper Peninsula Intermediate School District			149,892	72,960	42,362		52,904	76,932	66,390
Total U.S. Department of Education			904,819	318,271	82,939		566,143	572,399	89,195
TOTAL FEDERAL AWARDS			\$ 1,247,042	\$ 447,201	\$ 82,939	\$	\$ 779,436	\$ 785,692	\$ 89,195

The accompanying notes are an integral part of this schedule.

ST. IGNACE AREA SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of St. Ignace Area Schools and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Impact Aid, CFDA #84.041 and National School Lunch Cluster CFDA #10.555 and 10.553 were audited as a major program, representing 44.17% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the general purpose financial statements:

General fund	\$ 620,755
Special revenue funds	<u>164,937</u>
Total Federal Awards	<u><u>\$ 785,692</u></u>

6. St. Ignace Area Schools was determined to be a low-risk auditee.

**ST. IGNACE AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Section I – Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
84.041	Impact Aid
10.555 & 10.553	National School Lunch

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II – Financial Statement Findings

None.

**ST. IGNACE AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008
(Continued)**

Section III – Federal Award Findings and Questioned Costs

None.

**ST. IGNACE AREA SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS**

Financial Statement Audit

None



HARRIS GROUP

Certified Public Accountants

September 16, 2008

Board of Education
St. Ignace Area Schools
St. Ignace, MI

In planning and performing our audit of the financial statements of St. Ignace Area Schools for the fiscal year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered St. Ignace Area School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following control deficiencies:

Student Activity Cash Account

It was noted during our audit that the cash for the student activities fund is held in the same account as the Athletics Fund. Since the District holds the Activity Fund cash on a fiduciary basis, we recommend that the District open a bank account strictly for the Activity Fund.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants



HARRIS GROUP

Certified Public Accountants

September 16, 2008

To the Board of Education
St. Ignace Area Schools
St. Ignace, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of St. Ignace Area Schools for the fiscal year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 8, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered St. Ignace Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether St. Ignace Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about St. Ignace Area School's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on St. Ignace Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on St. Ignace Area School's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by St. Ignace Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Education and management of St. Ignace Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "HARRIS GROUP". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants